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RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 0704
RUEHVEN/USMISSION USOSCE 2673
RUCNDT/USMISSION USUN NEW YORK 2053
RUEHNO/USMISSION USNATO BRUSSELS BE
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C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 001155

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DEPT FOR SCA/CEN (GEHRENBECK)
TREASURY FOR JEFF BAKER

E.O. 12958: DECL: 09/18/2017
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SUBJECT: "MAXIMIZING" BUSINESS IN THE KYRGYZ REPUBLIC

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Classified By: Ambassador Marie Yovanovitch for Reasons 1.4 (b) and (d)

¶1. (C) Summary: A prominent ex-pat businessman, Giorgio Fiacconi, has reportedly been forced to sell his Kyrgyz Credit Bank (KCB) to a close business associate of Kyrgyz President Kurmanbek Bakiyev's son, Maxim. The associate, Latvian businessman Valery Belokon, has also acquired the failed "Insan" bank, which he has rebranded "Manas" bank, and, according to Belokon, will attract \$200 million in assets during its first year of operations. Belokon's increased Kyrgyz banking profile follows the reported crackdown by Russian authorities on a Russian bank implicated in the funneling of significant sums among Latvian, Kyrgyz and other financial institutions. Given his ties, through Maxim Bakiyev, to the Kyrgyz leadership, and given the political weakness of the Kyrgyz Central Bank, Belokon's Kyrgyz activities merit special scrutiny. End Summary.

Giorgio Fiacconi's Kyrgyz Portfolio

¶2. (SBU) Giorgio Fiacconi, a 63-year-old Italian citizen, has nurtured a significant business portfolio in Kyrgyzstan over the past 13 years. At the beginning of 2007, Fiacconi held a significant stake in a large shopping complex (Tsum), owned the Kyrgyz Credit Bank, controlled an English-language newspaper (Times of Central Asia), was proprietor of an Italian restaurant, and likely held other interests arising from his earlier work renovating what is now the Bishkek Hyatt. Given his extensive holdings, Fiacconi has long attracted (often unwanted) attention from Kyrgyz authorities. After the 2005 "revolution," Fiacconi was jailed, but eventually released following judicial actions and international pressure.

Acting without Consultations

13. (C) Earlier this year, Fiacconi quietly sold his stake in Tsum to Kazakh investors. Once the sale became public

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knowledge in August, Fiacconi suddenly faced tax evasion charges. In a subsequent court hearing, he suffered an angina attack and was admitted to hospital. While in the hospital, Fiacconi advised emboff that he was in "trouble" for "insulting senior people" by selling his Tsum shares "without consultations." Without uttering the name of his principal adversary, he confirmed that it was "M.B., Jr." (Note: "M.B., Jr." likely corresponds to President Bakiyev's younger son, Maxim. End note.) Fiacconi added that the tax evasion charges arose from a loan which he received from an Italian bank to finance his business activities. Kyrgyz officials, he noted, now consider the loan a "gift" subject to taxation. Fiacconi added, however, that three Kyrgyz experts called by the government to validate this interpretation disagreed and supported Fiacconi's position.

Fallout

14. (C) According to Fiacconi, an intermediary informed him that he could "compensate for his mistake" by doing three things: 1) paying a fine for tax evasion, 2) providing financial support to a sport club, and 3) selling his bank. Fiacconi faced an August 24 deadline to acquiesce, or, as he reported to emboff, he would suffer a damaging media broadside, the possible arrest of himself and his employees and the prospect of "physical retribution." Fiacconi said his opponents were "prepared," and he did not plan to mount a defensive media campaign, as he had done in the past.

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Belokon Builds a Banking Network

15. (C) On August 28, Kyrgyz media reported that Valery Belokon, Maxim Bakiyev's Latvian business partner, wanted to open a commercial bank in Kyrgyzstan. (Note: The reports also added that Belokon hoped to open a Kyrgyz "banking school" and expand into mining. End note.) Fiacconi, after his release from the hospital, confirmed to emboff August 28 that he had sold his bank. When asked for details regarding the buyer, Fiacconi advised emboff to read a news summary which only contained information about Belokon's interest in a Kyrgyz bank. There has been no public reporting on the sale of Fiacconi's Kyrgyz Credit Bank.

16. (C) Despite Fiacconi's account, Kyrgyz media have instead focused on Belokon's recent purchase of the failed "Insan" bank, which will be renamed the "Manas" bank. (Note: Belokon's action to acquire Kyrgyz banks roughly coincides with a reported crackdown, by Russian authorities, on the Iberus Russian bank, which has been implicated in the alleged funneling of money between financial institutions in Latvia, Kyrgyzstan and a few other countries. End note.) Belokon announced September 14 that "Manas" bank will have charter capital of 300-500 million soms (roughly \$8-13 million) and will have assets of \$200 million in the first year of operation. He also revealed that he has spent 100 million euros (\$138 million) to equip the bank. (Note: A Kyrgyz Central Bank advisor expressed astonishment to emboff September 13 at the large amount expended on the new bank's equipment. End note.) The Latvian prime minister attended the Bishkek ceremony announcing the launch of Belokon's Kyrgyz bank.

Going for the Gold

¶7. (SBU) On August 29, Kyrgyz media reported that Maxim Bakiyev had been elected president of the Kyrgyz Wrestling Federation (KWF) at an August 28 "emergency meeting" that followed the "voluntary" resignation of the previous KWF president. (Note: Bakiyev's election to this post enables him to be considered as chairman of the Kyrgyz Olympic Committee. End note.)

Business Community Reaction

¶8. (C) International Business Council Chairman (and Kumtor Operating Company president) Andy Lewis told emboff August 31 that little could be done about the Fiacconi case other than ensuring that the international business community was aware of what happened. Lewis commented that "Maxim Bakiyev has accomplished more in the past three months than his predecessor did in years." (Note: By predecessor, he means former President Akayev's son Aidar, who took advantage of his father's position in business dealings, one of the reasons for the 2005 "revolution." End note.) Fiacconi's situation follows complaints by a U.S. telecommunications firm of interference by Maxim Bakiyev in GSM-compatible bandwidth licensing.

Comment

¶9. (C) The raid on Fiacconi's assets is a worrying development. While Maxim Bakiyev, in an interview earlier this year, denied allegations that he controlled any businesses in Kyrgyzstan, he admitted that he works for a Latvian capital management company and identified Belokon as

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a close business partner. Although Fiacconi and other Embassy interlocutors have not explicitly linked Belokon and Maxim Bakiyev jointly to recent developments, their interests would be served by these events. If Belokon's interests have been affected by recent Russian Central Bank activities, then the uptick in Maxim Bakiyev's and Belokon's activities in Kyrgyzstan makes sense. With Maxim Bakiyev's father holding the presidency, the politically weak Kyrgyz Central Bank may have difficulty exercising oversight of Belokon's banking interests. Post will continue to monitor developments.

¶10. (C) We also note that Belokon has attempted previously to arrange meetings, on Maxim Bakiyev's behalf, in Washington.

YOVANOVITCH